

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

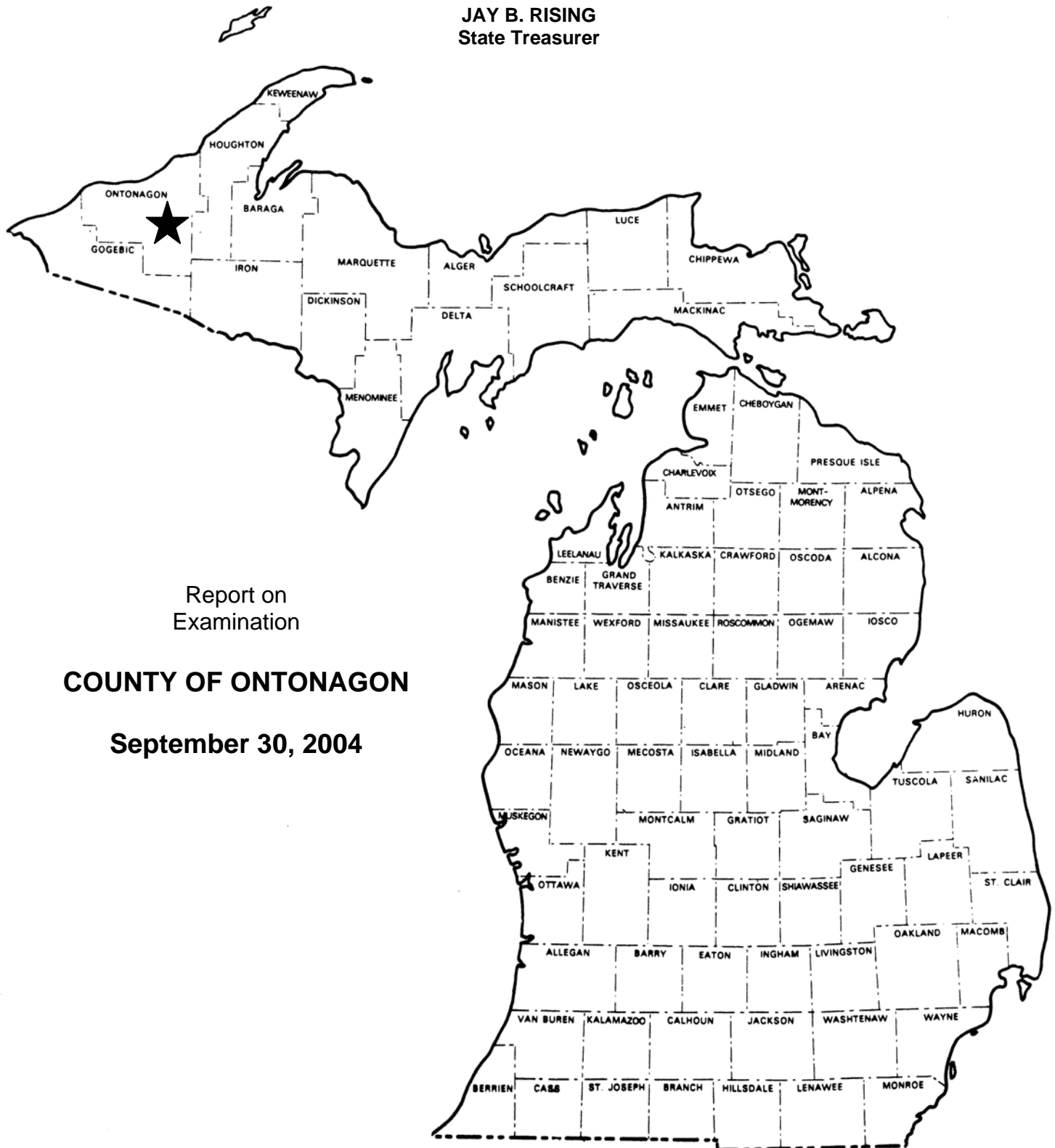
- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination

COUNTY OF ONTONAGON

September 30, 2004

Local Audit and Finance Division
Bureau of Local Government Services

ONTONAGON COUNTY
BOARD OF COMMISSIONERS

Joan V. Antila
Chairperson

Hubert Lukkari

Louis J. Paulman

Joseph Moskwa

John E. Pelkola

COURT JUDGES

Roy D. Gotham
Circuit Judge

Joseph D. Zeleznik
Probate Judge

Anders B. Tingstad
District Judge

OTHER ELECTED OFFICIALS

Diana J. Killoran
Treasurer

James R. Jessup
Prosecuting Attorney

John Gravier
Sheriff

William Turin
Mine Inspector

Judith D. Roehm
Clerk and Register of Deeds

COUNTY POPULATION--2000
7,788

STATE EQUALIZED VALUATION--2004
\$291,810,412



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

December 14, 2004

Ontonagon County Board of Commissioners
Ontonagon County Courthouse
725 Greenland Road
Ontonagon, Michigan 49953

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Ontonagon County, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the Ontonagon County's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Ontonagon County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note Q, the county adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues;" GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," as amended by GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis," GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures," as of October 1, 2003.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the

aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Ontonagon County, as of September 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2004, on our consideration of the Ontonagon County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparisons for the Major Fund, as identified in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ontonagon County's basic financial statements. The combining nonmajor fund financial statements (Exhibits O through U) and general fund detail schedule of revenues and expenditures (Exhibits V through W), are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and general fund detail schedule of revenues and expenditures have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

COUNTY OF ONTONAGON

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COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County, as a whole, and present a longer-term view of the county's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the county's operations in more detail than the government-wide financial statements.

The County as a Whole

Because this is the first year of implementation of Government Account Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.

	Governmental Activities <u>2004</u>	Business-Type Activities <u>2004</u>	Total <u>2004</u>
Current Assets	\$ 1,881,519	\$ 99,767	\$ 1,981,286
Noncurrent Assets	<u>2,046,480</u>		<u>2,046,480</u>
Total Assets	<u>3,927,999</u>	<u>99,767</u>	<u>4,027,766</u>
Current Liabilities	160,289	70	160,359
Noncurrent Liabilities	<u>243,868</u>		<u>243,868</u>
Total Liabilities	<u>404,157</u>	<u>70</u>	<u>404,227</u>
Net Assets			
Invested in Capital Assets--Net of Debt	1,708,480		1,708,480
Restricted	1,521,458		1,521,458
Unrestricted (Deficit)	<u>293,904</u>	<u>99,697</u>	<u>393,601</u>
Total Net Assets	<u>\$ 3,523,842</u>	<u>\$ 99,697</u>	<u>\$ 3,623,539</u>

The largest portion of the county's net assets, \$1,708,480 (47 percent), reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The county uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the county's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

An additional portion of the county's net assets, \$393,601 (11 percent), represents *unrestricted net assets* that may be used to meet the county's ongoing obligations to citizens and creditors.

The remaining balance of \$1,521,458, (42 percent), represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the county is able to report positive balances in all three categories (invested in capital assets-net of related debt, restricted and unrestricted) of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The following table shows the changes of the net assets as of the September 30, 2004:

	Governmental Activities <u>2004</u>	Business-Type Activities <u>2004</u>	Total <u>2004</u>
Program Revenues			
Charges for Services	\$ 861,132	\$ 102,340	\$ 963,472
Operating Grants and Contributions	1,291,348		1,291,348
Capital Grants and Contributions	169,242		169,242
General Revenues			
Property Taxes	1,775,816		1,775,816
Unrestricted Investment Earnings	14,936		14,936
Rentals	1,482		1,482
State Shared Revenues	920		920
Transfers	<u>98,717</u>	<u>(117,117)</u>	<u>(18,400)</u>
Total Revenues	<u>4,213,593</u>	<u>(14,777)</u>	<u>4,198,816</u>
Program Expenses			
General Government	1,691,233		1,691,233
Public Safety	1,071,067		1,071,067
Public Works	522,633		522,633
Health and Welfare	384,841		384,841
Community and Economic Development	402,083		402,083
Recreation and Culture	48,555		48,555
Other	<u>64,707</u>	<u> </u>	<u>64,707</u>
Total Expenses	<u>4,185,119</u>	<u>-</u>	<u>4,185,119</u>
Change in Net Assets	<u>\$ 28,474</u>	<u>\$ (14,777)</u>	<u>\$ 13,697</u>

The change in net assets is the result of an increase in property tax revenue and an increase in capital asset acquisitions over the depreciation expense during the year.

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

As the county completed fiscal year 2004, its governmental funds reported are *combined* fund balances of \$1,562,172, a decrease of \$293,647. The net changes are summarized below:

	Governmental Activities 2003	Governmental Activities 2004	Amount Difference 2004	Percentage Difference 2004
Revenues				
Taxes	\$ 1,669,896	\$ 1,762,499	\$ 92,603	6%
Licenses and Permits	3,598	4,050	452	13%
Federal Grants	346,925	528,828	181,903	52%
State Grants	760,081	731,006	(29,075)	-4%
Charges for Services	477,399	498,333	20,934	4%
Fines and Forfeits	33,024	26,559	(6,465)	-20%
Interest and Rentals	46,650	33,795	(12,855)	-28%
Other Revenue	496,861	329,967	(166,894)	-34%
Total Revenues	3,834,434	3,915,037	80,603	2%
Expenses				
Current				
General Government	1,120,317	1,224,334	104,017	9%
Public Safety	751,815	784,002	32,187	4%
Public Works	409,643	445,089	35,446	9%
Health and Welfare	886,905	778,814	(108,091)	-12%
Community and Economic Development		7,624	7,624	100%
Recreation and Cultural	50,950	45,070	(5,880)	-12%
Other	715,739	742,544	26,805	4%
Capital Outlay	73,777	200,678	126,901	172%
Debt Service				
Principal	8,118	79,246	71,128	876%
Total Expenditures	4,017,264	4,307,401	290,137	7%
Excess of Revenues Over (Under) Expenditures	(182,830)	(392,364)	(209,534)	115%
Other Financing Sources (Uses)				
Interfund Transfers In				
Primary Government	254,698	144,908	(109,790)	-43%
Interfund Transfers (Out)				
Primary Government	(50,698)	(27,791)	22,907	-45%
Component Unit	(103,000)	(18,400)	84,600	-82%
Total Other Financing Sources (Uses)	101,000	98,717	(2,283)	-2%
Beginning Fund Balance	1,937,649	1,855,819	(81,830)	-4%
Ending Fund Balance	\$ 1,855,819	\$ 1,562,172	\$ (293,647)	-16%

COUNTY OF ONTONAGON
MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's Funds

Our analysis of the county's major funds is detailed in the Notes to the Financial Statements, following the entity wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the county as a whole. The county board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The county's major funds for 2004 include the General Fund, the Public Transit Fund, the 911 Service Fund, the Economic Development Revolving Loan Fund, and the 2003 Tax Payment Fund.

The General Fund is the chief operating fund of the county. Unless otherwise required by statute, contractual agreement, or board policy, all county revenues and expenditures are recorded in the General Fund. The most significant are the general government, public safety, and health and welfare which incurred expenses of \$1,224,334, \$784,002 and \$778,814, respectively, during 2004.

The county's total governmental revenues increased by approximately 2% primarily due to the continuing increase in property taxes and Federal aid.

Expenses increased by approximately 6.7% mainly due to the increasing capital outlay purchases and reduction to principal on the White Pine Industrial Facility loan.

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities

	Business-Type Activities 2003	Business-Type Activities 2004	Amount Difference 2004	Percentage Difference 2004
Operating Revenues				
Interest and Penalties on Taxes	\$ 110,229	\$ 102,340	\$ (7,889)	-7%
Total Operating Revenues	110,229	102,340	(7,889)	-7%
Operating Expenses				
Supplies and Postage	4,213		(4,213)	-100%
Total Operating Expenses	4,213	-	(4,213)	-100%
Net Income (Loss) From Operations	106,016	102,340	(3,676)	-3%
Net Income (Loss) Before Operating Transfers	106,016	102,340	(3,676)	-3%
Transfers (Out)--Primary Government	(204,000)	(117,117)	86,883	-43%
Net Income (Loss)	(97,984)	(14,777)	83,207	-85%
Beginning Retained Earning	212,458	114,474	(97,984)	-46%
Ending Retained Earning	\$ 114,474	\$ 99,697	\$ (14,777)	-13%

The county's business-type activities consist of the Delinquent Tax Revolving Funds for various years and represent collection of delinquent taxes. There was no significant change in the revenues or expenses except the amount transferred to the General Fund did decrease by \$86,883.

General Fund Budgetary Highlights

Over the course of the year, the county board amended the budget to take into account events during the year. The county's revenue budget was increased by \$261,343 (15% above the original budget) during fiscal year 2004. Actual General Fund revenue and other financing sources totaled \$2,921,962, which was \$79,193 below the final amended budget. The largest variances were: decrease in anticipated Federal grants and an increase in property taxes.

COUNTY OF ONTONAGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The county's expenditure budget was increased by \$586,257 (15% over the original budget) during fiscal year 2004. There were some wide variances in individual expenditure accounts as a result of reclassifying fringe benefits from an "other" activity into the respective activities where the salaries and wages were recorded. There was also an increase in Health and Welfare costs during fiscal year 2004. Actual General Fund expenditures and other financing sources totaled \$3,050,657, which was \$49,502 over the final amended budget. The largest variances were: increase in anticipated general government and judicial expenditures.

Capital Asset and Debt Administration

At the end of 2004, the county had \$1,708,480 invested in a broad range of capital assets, including land, land improvements, buildings and building improvements, office equipment, and police vehicles and equipment. Major additions to the capital assets this year included land improvements for \$116,380, office and other equipment for \$35,881 and vehicles for \$48,417. See Note G of the notes to the financial statements for more information. No debt was incurred for the asset acquisitions.

Debt is classified as long-term if it matures in a period greater than one year. At the end of the current fiscal year, the county had total debt outstanding of \$81,353 in loans and vested employee benefits of \$125,997.

Economic Factors and Next Year's Budgets and Rates

The county has considered the following factor in preparing the 2005 fiscal year budget:

State Shared Revenue--This represents Ontonagon County's share of the State's sales tax. Budgetary projections were uncertain as the State was undecided on their budget and were debating the Governor's proposal to shift county property tax collections from December to July. This proposal allowed the State to actually not make any revenue sharing payments to counties. Ontonagon County will set up a special revenue fund and collect the equivalent of one additional year of property taxes over the next three years and put these funds into this reserve account. We will then draw an amount equivalent to our revenue sharing payments each year until this fund is exhausted. The State would then restart revenue sharing payments once this fund is exhausted.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the county's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Ontonagon County Clerk's Office at the Ontonagon County Courthouse, 725 Greenland Road, Ontonagon, Michigan 49953.

ONTONAGON COUNTY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
September 30, 2004

EXHIBIT A

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-Type Activities	Total	Component Units
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ 1,172,114	\$ 73,537	\$ 1,245,651	\$ 1,164,209
Receivables (Net)				
Taxes	13,317	364,230	377,547	7,681
Accounts	12,949		12,949	36,099
Interest	1,069		1,069	
Economic Development Loans	447,222		447,222	
Due From Other Counties	960		960	
Due From State	184,780		184,780	451,140
Due From Federal Government	4,293		4,293	
Due From Local Units of Governments	32,445		32,445	28,582
Inventories				948,619
Prepays	12,370		12,370	71,247
Total Current Assets	1,881,519	437,767	2,319,286	2,707,574
Noncurrent Assets				
Capital Assets, Net of Accumulated Depreciation	1,708,480		1,708,480	2,995,087
Long-Term Advances--Internal Balances	338,000	(338,000)	-	
Total Noncurrent Assets	2,046,480	(338,000)	1,708,480	2,995,087
Total Assets	\$ 3,927,999	\$ 99,767	\$ 4,027,766	\$ 5,702,661
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities				
Accounts Payable	\$ 50,219		\$ 50,219	\$ 213,082
Due to State	17,271		17,271	
Accrued Liabilities	92,799		92,799	65,432
Redemption Certificate Fees	-	\$ 70	70	-
Total Current Liabilities	160,289	70	160,359	278,514
Noncurrent Liabilities				
Advances From State	-		-	386,217
Deferred Revenue	36,519		36,519	423,156
Loans Payable--Due Within One Year	8,563		8,563	
Loans Payable	72,789		72,789	-
Vested Employee Benefits Payable	125,997		125,997	584,954
Total Noncurrent Liabilities	243,868	-	243,868	1,394,327
Total Liabilities	404,157	70	404,227	1,672,841
Net Assets				
Investment in Capital Assets, Net of Related Debt	1,708,480		1,708,480	2,995,087
Restricted for				
Family Counseling	1,950		1,950	
Act 302 Officer Training	1,426		1,426	
Economic Development Grants/Loans	905,926		905,926	
Special Revenue Programs	612,156		612,156	-
County Road Projects				886,987
Unreserved--Undesignated	293,904	99,697	393,601	147,746
Total Net Assets	\$ 3,523,842	\$ 99,697	\$ 3,623,539	\$ 4,029,820

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2004

EXHIBIT B

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT			Component Units
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities								
General Government	\$ 1,691,233	\$ 280,196	\$ 563,874	-	\$ (847,163)		\$ (847,163)	
Public Safety	1,071,067	142,061	296,517		(632,489)		(632,489)	
Public Works	522,633	67,232	229,387	\$ 74,953	(151,061)		(151,061)	
Health and Welfare	384,841		105,761		(279,080)		(279,080)	
Community and Economic Development	402,083	316,027	95,809	94,289	104,042		104,042	
Recreation and Culture	48,555	55,616			7,061		7,061	
Other	64,707				(64,707)		(64,707)	
Interest on Long-Term Debt								
Total Governmental Activities	4,185,119	861,132	1,291,348	169,242	(1,863,397)	\$ -	(1,863,397)	\$ -
Business-Type Activities								
Delinquent Tax Revolving		28,255				28,255	28,255	
Non-major Enterprise Funds		74,085				74,085	74,085	
Total Business-Type Activities	-	102,340	-	-	-	102,340	102,340	-
Total Primary Government	\$ 4,185,119	\$ 963,472	\$ 1,291,348	\$ 169,242	\$ (1,863,397)	\$ 102,340	\$ (1,761,057)	\$ -
Component Units								
Road Commission	\$ 5,255,943	\$ 1,966,724	\$ 2,412,964	\$ 233,956				\$ (642,299)
Economic Development Corporation	79,949	10,587	13,442	-				(55,920)
Total Component Units	\$ 5,335,892	\$ 1,977,311	\$ 2,426,406	\$ 233,956	\$ -	\$ -	\$ -	\$ (698,219)
General Revenues								
Property Taxes					\$ 1,775,816		\$ 1,775,816	\$ 796,639
State-Shared Revenues					920		920	
Unrestricted Investment Earnings					14,936		14,936	2,055
Rentals					1,482		1,482	
Transfers In (Out)					98,717	\$ (117,117)	(18,400)	18,400
Total General Revenues--Special Items and Transfers					1,891,871	(117,117)	1,774,754	944,972
Change in Net Assets					28,474	(14,777)	13,697	944,972
Net Assets--Beginning					3,495,368	114,474	3,609,842	3,783,067
Net Assets--Ending					\$ 3,523,842	\$ 99,697	\$ 3,623,539	\$ 4,029,820

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2004

EXHIBIT C

	SPECIAL REVENUE FUNDS					
	General	Public Transit	911 Service	Economic Development Revolving Loan	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>						
Current Assets						
Cash and Cash Equivalents	\$ (109,281)	\$ 118,226	\$ 370,404	\$ 457,635	\$ 335,130	\$ 1,172,114
Receivables						
Taxes	13,317					13,317
Accounts		4,218	8,530		201	12,949
Interest				1,069		1,069
Economic Development Loans				447,222		447,222
Due From Other Counties	960					960
Due From State	138,856	17,731	20,218		7,975	184,780
Due From Federal Government	4,293					4,293
Due From Other Agencies	32,445					32,445
Prepaid Expense	9,590	2,780				12,370
Total Current Assets	90,180	142,955	399,152	905,926	343,306	1,881,519
Noncurrent Assets						
Other Funds--Primary Government	338,000					338,000
Total Noncurrent Assets	338,000	-	-	-	-	338,000
Total Assets	\$ 428,180	\$ 142,955	\$ 399,152	\$ 905,926	\$ 343,306	\$ 2,219,519
<u>LIABILITIES AND FUND EQUITY</u>						
Current Liabilities						
Accounts Payable	\$ 42,578	\$ 5,238	\$ 77		\$ 2,326	\$ 50,219
Due to State of Michigan		17,271				17,271
Accrued Liabilities	67,603	22,744	849		1,603	92,799
Total Current Liabilities	110,181	45,253	926	\$ -	3,929	160,289
Noncurrent Liabilities						
Deferred Revenue	13,317			\$ 447,222	36,519	497,058
Total Noncurrent Liabilities	13,317	-	-	447,222	36,519	497,058
Total Liabilities	123,498	45,253	926	447,222	40,448	657,347
Fund Equity						
Fund Balances						
Reserved for						
Long-Term Advances	193,000					193,000
Family Counseling	1,950					1,950
Act 302 Officer Training	1,426					1,426
Economic Development Grants/Loans				458,704		458,704
Special Revenue Programs		97,702	398,226		116,228	612,156
Unreserved--Undesignated	108,306				186,630	294,936
Total Fund Equity	304,682	97,702	398,226	458,704	302,858	1,562,172
Total Liabilities and Fund Equity	\$ 428,180	\$ 142,955	\$ 399,152	\$ 905,926	\$ 343,306	\$ 2,219,519

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net
 Assets of Governmental Activities on the Statement of Net Assets

Fund Balance--Total Governmental Funds	\$ 1,562,172
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,708,480
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Revenues that do not provide current financial resources are not reported as revenue in the funds.	460,539
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Certain liabilities, such as bonds payable, interest payable and compensated absences, are not due and and payable in the current period and, therefore, are not reported in the funds.	(207,349)
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Total Net Assets	\$ 3,523,842
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The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2004

EXHIBIT D

	SPECIAL REVENUE FUNDS					
	General	Public Transit	911 Service	Economic Development Revolving Loan Fund	Non-Major Governmental	Total Governmental Funds
Revenues						
Taxes and Penalties	\$ 1,519,701	\$ 92,334			\$ 150,464	\$ 1,762,499
Licenses and Permits	4,050					4,050
Federal Grants	353,910	109,665			65,253	528,828
State Grants	438,089	195,595	\$ 75,530		21,792	731,006
Contributions From Local Units	-					-
Charges for Services	329,046	57,967	95,745		15,575	498,333
Fines and Forfeits	1,670				24,889	26,559
Interest and Rentals	10,645	1,371		\$ 21,470	309	33,795
Other Revenue	129,943	9,265		111,478	79,281	329,967
Total Revenues	2,787,054	466,197	171,275	132,948	357,563	3,915,037
Expenditures						
Current						
General Government	1,192,280				32,054	1,224,334
Public Safety	717,964		66,038			784,002
Public Works	25,975	419,114				445,089
Health and Welfare	149,862			298,000	330,952	778,814
Community and Economic Development	7,624			-		7,624
Recreation and Cultural	22,000				23,070	45,070
Other	742,474				70	742,544
Capital Outlay	103,232	74,953	22,493			200,678
Debt Service						
Principal	79,246					79,246
Interest and Fiscal Fees						-
Refunding Bond Issuance Cost						-
Total Expenditures	3,040,657	494,067	88,531	298,000	386,146	4,307,401
Excess of Revenues Over (Under) Expenditures	(253,603)	(27,870)	82,744	(165,052)	(28,583)	(392,364)
Other Financing Sources (Uses)						
Interfund Transfers In--Primary Government	134,908				10,000	144,908
Interfund Transfers (Out)--Primary Government	(10,000)	(14,776)			(3,015)	(27,791)
Interfund Transfers (Out)--Component Unit				(18,400)		(18,400)
Total Other Financing Sources (Uses)	124,908	(14,776)	-	(18,400)	6,985	98,717
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(128,695)	(42,646)	82,744	(183,452)	(21,598)	(293,647)
Fund Balance (Deficit)--October 1, 2003	433,377	140,348	315,482	642,156	324,456	1,855,819
Fund Balance (Deficit)--September 30, 2004	\$ 304,682	\$ 97,702	\$ 398,226	\$ 458,704	\$ 302,858	\$ 1,562,172

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2004

EXHIBIT D-1

NET CHANGE IN FUND BALANCES--TOTAL GOVERNMENTAL FUNDS \$ (293,647)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
Statement of Activities the costs of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add--Capital Outlay	200,678
Deduct--Depreciation Expense	(151,411)

Revenues earned, but not available for current resources, are not reported in the funds.

Economic Development--Loans Paid Out During 2004.	186,522
Tax Revenues	13,317

Repayment of bond principal is an expenditure in the governmental funds, but
the repayment reduces long-term liabilities in the Statement of Net Assets.

Add--Principal Payments on Long-Term Liabilities	79,246
--	--------

Some expenses reported in the Statement of Activities do not require the use
of current financial resources and, therefore, are not reported as expenditures in
the funds.

Net (Increase) Decrease in Compensated Absences	<u>(6,231)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 28,474</u>
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The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2004

EXHIBIT E

ENTERPRISE FUNDS
BUSINESS-TYPE ACTIVITIES

	100% Tax Payment 2003	Non-Major Enterprise Funds	Total
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents	\$ 61,857	\$ 11,680	\$ 73,537
Delinquent Taxes Receivable	296,398	66,669	363,067
Forfeiture Certificate Fee Receivable		1,163	1,163
Total Current Assets	358,255	79,512	437,767
Total Assets	<u>\$ 358,255</u>	<u>\$ 79,512</u>	<u>\$ 437,767</u>
<u>LIABILITIES</u>			
Current Liabilities			
Redemption Certificate Fees		\$ 70	\$ 70
Total Current Liabilities	<u>\$ -</u>	<u>70</u>	<u>70</u>
Noncurrent Liabilities			
Advance From General Fund	330,000	8,000	338,000
Total Noncurrent Liabilities	<u>330,000</u>	<u>8,000</u>	<u>338,000</u>
Total Liabilities	<u>330,000</u>	<u>8,070</u>	<u>338,070</u>
<u>NET ASSETS</u>			
Unrestricted Net Assets	28,255	71,442	99,697
Total Net Assets	<u>\$ 28,255</u>	<u>\$ 71,442</u>	<u>\$ 99,697</u>

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS-PROPRIETARY FUNDS
For the Year Ended September 30, 2004

EXHIBIT F

	ENTERPRISE FUNDS--BUSINESS-TYPE ACTIVITIES		
	100% Tax Payment 2003	Non-Major Enterprise Funds	Total Enterprise Funds
Operating Revenues			
Interest and Penalties on Taxes	\$ 28,255	\$ 74,085	\$ 102,340
Total Operating Revenues	28,255	74,085	102,340
Net Operating Income (Loss)			
Before Operating Transfers	28,255	74,085	102,340
Interfund Transfers			
Transfers (Out) to General Fund		(117,117)	(117,117)
Change in Net Assets	28,255	(43,032)	(14,777)
Total Net Assets--October 1, 2003		114,474	114,474
Total Net Assets--September 30, 2004	\$ 28,255	\$ 71,442	\$ 99,697

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2004

EXHIBIT G

	ENTERPRISE FUNDS--BUSINESS-TYPE ACTIVITIES		
	100% Tax Payment 2003	Non-Major Enterprise Funds	Total Enterprise Funds
Cash Flows From Operating Activities			
Interest and Penalties on Taxes	\$ 28,255	\$ 74,085	\$ 102,340
Delinquent Taxes Collected	(656,039)	284,640	(371,399)
(Increase) or Decrease in Other Receivables	359,641	377	360,018
Increase or (Decrease) in Other Payables		(267)	(267)
Net Cash Provided by Operating Activities	(268,143)	358,835	90,692
Cash Flows From Noncapital Financing Activities			
Advances From Other Funds	525,000	-	525,000
Return of Advances From Other Funds	(195,000)	(242,000)	(437,000)
Transfers In (Out)		(117,117)	(117,117)
Net Cash Provided by Noncapital Financing Activities	330,000	(359,117)	(29,117)
Net Increase (Decrease) in Cash and Cash Equivalents	61,857	(282)	61,575
Cash and Cash Equivalents at Beginning of Year		11,962	11,962
Cash and Cash Equivalents at End of Year	\$ 61,857	\$ 11,680	\$ 73,537
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	\$ 28,255	\$ 74,085	\$ 102,340
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
(Increase) Decrease in Taxes Receivable	(296,398)	284,640	(11,758)
(Increase) Decrease in Forfeiture Certificate Fee Receivable	-	377	377
Increase (Decrease) in Redemption Certificate Fee Payable		(267)	(267)
Net Cash Provided by Operating Activities	\$ (268,143)	\$ 358,835	\$ 90,692

The Notes to Financial Statements are an integral part of this statement.

**ONTONAGON COUNTY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
September 30, 2004**

EXHIBIT H

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 360,686
Total Assets	<u>\$ 360,686</u>
Liabilities	
Due to Schools	\$ 649
Due to Townships	8,081
Due to Villages	342
Due to State of Michigan	448,823
Undistributed Interest	64
Undistributed Penal Fines	10,722
Undistributed Tax Collections	(115,188)
Other Trust Payable	<u>7,193</u>
Total Liabilities	<u>360,686</u>
Total Liabilities and Fund Balances	<u>\$ 360,686</u>

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
September 30, 2004

EXHIBIT I

	Road Commission	Economic Development Corporation	Total
<u>ASSETS</u>			
Current Assets			
Cash	\$ 1,016,463	\$ 147,746	\$ 1,164,209
Receivables			
Taxes	7,681		7,681
Accounts	36,096		36,096
Due From State	451,140		451,140
Due From Townships	28,582		28,582
Inventories	948,619		948,619
Prepays	71,247		71,247
Total Current Assets	2,559,828	147,746	2,707,574
Noncurrent Assets			
Capital Assets (Net)	2,995,087		2,995,087
Total Noncurrent Assets	2,995,087	-	2,995,087
Total Assets	\$ 5,554,915	\$ 147,746	\$ 5,702,661
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 213,082		\$ 213,082
Accrued Liabilities	65,432		65,432
Total Current Liabilities	278,514	\$ -	278,514
Noncurrent Liabilities			
Advances From State	386,217		386,217
Long-Term Advances From			
Deferred Revenue	423,156		423,156
Assessments Collected in Advance			-
Vested Employee Benefits Payable	584,954		584,954
Total Noncurrent Liabilities	1,394,327	-	1,394,327
Total Liabilities	1,672,841	-	1,672,841
Net Assets			
Investment in Capital Assets	2,995,087		2,995,087
Restricted for County Road Projects	886,987		886,987
Unrestricted		147,746	147,746
Total Net Assets	\$ 3,882,074	\$ 147,746	\$ 4,029,820

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the Year Ended September 30, 2004

EXHIBIT J

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road	Economic Development Corporation	Total
Road Commission							
Public Works	\$ 5,255,943	\$ 1,966,724	\$ 2,412,964	\$ 233,956	\$ (642,299)		\$ (642,299)
Interest on Related Debt					-		-
Total Road Commission	5,255,943	1,966,724	2,412,964	233,956	(642,299)	\$ -	(642,299)
Economic Development Corporation							
Health and Welfare	79,949	10,587	13,442			(55,920)	(55,920)
Interest on Related Debt						-	-
Total Economic Development Corporation	\$ 79,949	\$ 10,587	\$ 13,442	\$ -	-	(55,920)	(55,920)
General Revenues							
Property Taxes					796,639		796,639
Investment Earnings						2,055	2,055
Other Revenues					127,878		127,878
Transfers							
Interfund Transfers In (Out)						18,400	18,400
Total General Revenues--Special Items and Transfers					924,517	20,455	944,972
Change in Net Assets						(35,465)	246,753
Net Assets--Beginning of Year					3,599,856	183,211	3,783,067
Net Assets--End of Year					\$ 3,882,074	\$ 147,746	\$ 4,029,820

The Notes to Financial Statements are an integral part of this statement.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

The accounting policies of Ontonagon County conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Ontonagon County:

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Ontonagon County is a municipal corporation governed by an elected five member board of commissioners. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the county (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The component units discussed in Note B are included in the county's financial reporting entity because of the significance of their operational or financial relationships with the county.

The component unit columns in the government-wide financial statements (Exhibits A and B) include the financial data of the Ontonagon County Road Commission and the Ontonagon County Economic Development Corporation (EDC). These financial statements are reported in separate columns to emphasize that they are legally separate from the county.

Each discretely presented component unit is reported in a separate column in the Component Units' Statement of Net Assets (Exhibit I) and the Statement of Activities (Exhibit J).

Discretely Presented Component Units

The Ontonagon County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt or levy property taxes without the county's approval. The Road Commission's property taxes are levied under the taxing authority of the county, as approved by the county electors, are included as part of the county's total tax levy and are reported in the county Road Fund.

The Ontonagon County Economic Development Corporation (EDC), was established in 1976 pursuant to the provisions of Public Act 338 of 1974, as amended. The EDC is included as part of the Ontonagon County entity for financial reporting purposes because its board is appointed by the Ontonagon County Board of Commissioners. A significant portion of its operating budget is funded by county appropriations. The EDC may not issue debt without the county's approval and the EDC administers the County's Economic Development Revolving Loan Fund established by Federal grants to the county. The financial statements of the County Economic Development Corporation are included in the special revenue fund category.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Complete audited and/or unaudited financial statements of the individual component units can be obtained from their respective administrative offices or from the county clerk's office at the courthouse.

Administrative Offices

Ontonagon County Economic Development Corporation
Ontonagon County Courthouse
725 Greenland Road
Ontonagon, Michigan 49953

Ontonagon County Road Commission
415 Spar Street
Ontonagon, Michigan 49953

Jointly Governed Organization--District Health Department

Ontonagon County, in conjunction with Baraga, Gogebic, Houghton and Keweenaw counties, has created the Western Upper Peninsula District Health Department under the authority of the Public Health Code. The District Health Board is composed of two members from each of the counties who are appointed by each participating county board of commissioners. All of the financial operations of the District Health Department are recorded in the records of Houghton County as a discretely presented component unit. The funding formula approved by the member counties is based pro rata on each unit's population and State equalized valuation to the district's population and valuation. Member counties' percentages and dollar share of the net operating budget for 2004 were:

Ontonagon	13.43%	\$50,742
Baraga	13.43%	50,742
Gogebic	22.20%	83,856
Houghton	46.32%	175,000
Keweenaw	<u>4.61%</u>	<u>17,433</u>
Total	<u>100.00%</u>	<u>\$377,773</u>

Ontonagon County's 2004 actual appropriation to the District Health Department was \$50,742 as the counties of Ontonagon, Gogebic and Houghton increased their budget allocations to amounts over the approved funding formula. An additional \$3,319 was appropriated from the State-shared cigarette tax revenues.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly Governed Organization--Community Mental Health Authority

Ontonagon County, in conjunction with Baraga, Houghton and Keweenaw counties, has created the Copper Country Mental Health Services Board, which is a community mental health organization defined in the Mental Health Code, MCL 330.1001, et seq., as amended, (Code). During 1996, the jointly created board became a community mental health authority under Section 205 of the Code in accordance with the Urban Cooperation Act. The Copper Country Community Mental Health Services Authority Board is composed of 12 members apportioned between the member counties on the basis of population. The board appointments are approved by their respective county board of commissioners. All of the financial operations of the Mental Health Authority are recorded in the records of Houghton County as a discretely presented component unit. The funding of the Mental Health Authority operations by the member counties is based on an agreement between the Mental Health Board and member counties, which provides for single annual appropriations to provide for State institution inpatient costs and mental health program costs.

The board approved member county appropriations for 2004 were as follows:

Ontonagon	\$ 48,814
Baraga	33,795
Houghton	164,495
Keweenaw	<u>8,500</u>
Total	<u>\$255,604</u>

Ontonagon County's 2004 appropriation to the Mental Health Board was \$48,814.

Basis of Presentation--Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the county.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The county reports the following major governmental funds:

GOVERNMENTAL FUNDS

General Fund

The General Fund is the government's primary operating fund. This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State and Federal aid, and charges for services to provide for the administration and operation of: (1) general county governmental departments, boards and commissions; (2) court systems; (3) law enforcement; and (4) health, welfare and medical assistance. The fund includes the general operating expenditures of the county.

Special Revenue Funds

These funds are used to account for specific revenue (other than special assessments, expendable trusts, or major capital projects) derived from State and Federal grants, general fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

Public Transit

This fund is used to account for the operations of the transit. Revenues are primarily derived from grants, user fees and an appropriation from the General Fund. The fund includes the operating expenditures of the county mass transit system.

911 Services

This fund is used to account for the activity of the public safety answering point for all of Ontonagon County, including villages, townships and cities participating in the Emergency Telephone District of the 911 Service Plan.

Economic Development Revolving Loan Fund

This fund is used to account for the activity of the economic development loan program.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUNDS

Enterprise Funds

100% Tax Payment Fund 2003--This fund accounts for the county's annual purchase of delinquent real property taxes from each of the local taxing units within the county and the ultimate collection from the property owners of the delinquent taxes with penalty and interest. The fund also accounts for the county's issuance of debt when needed (to provide cash flow for the purchase of the taxes) and for the resulting debt service payment.

Enterprise funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The principal operating revenues of the delinquent tax fund are collection fees for delinquent taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

FIDUCIARY FUNDS

Agency Funds

These funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are by nature custodial; therefore, operation results are not measured.

Ontonagon County applies all Accounting Standards Board (ASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Cash, Cash Equivalents, and Investments

For purposes of the statement of cash flows, demand deposits and short-term investments with a maturity of three months or less, when acquired, are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value based on quoted market prices.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current Property Taxes

The county property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st.

The 2003 State equalized valuation of Ontonagon County amounted to \$268,161,692 and the taxable valuation is \$181,062,098, on which ad valorem taxes of 6.3648 mills were levied for county operating purposes; .5000 mills for the county commission on aging for the maintenance and expansion of its present programs for senior citizens; .4880 mills for county transit system operating purposes; .2927 mills for Gogebic/Ontonagon Community Action programs in Ontonagon County; and 4.8504 mills for county road commission and the Village of Ontonagon's snow removal and road construction purposes. In addition, specific taxes are levied under the Industrial Facilities Tax Act and Commercial Forest Reserve Act. The current tax revenues, reflected in the county's 2003 financial statements, consist of the amount of the 2004 tax levy collected by the local unit treasurers prior to March 1, 2004.

Taxes Receivable--Delinquent

The taxes receivable--delinquent of \$13,317, recorded in the General Fund, and \$7,681 recorded in the component unit (Road Commission) financial statements, consist of unpaid personal property taxes for the years 1999 through 2003. The county's policy is to recognize revenue from delinquent property taxes when collected. Accordingly, the delinquent taxes receivable are recorded in the county's financial statements with an offsetting credit to deferred revenue--taxes.

Enterprise Funds

The taxes receivable--delinquent of \$363,067 which are recorded in the Enterprise Funds, consist of the unpaid delinquent real property taxes which were purchased from all of the taxing units in Ontonagon County by the County's 100% Tax Payment Funds for the years 2001 (\$2,023), 2002 (\$64,646) and 2003 (\$296,398). The County's 100% Tax Payment Funds are financed entirely by advances from the County's General Fund. Accordingly, none of the delinquent taxes are pledged for the payment of notes.

Inventories

The component unit (Road Commission) inventories, consisting of road materials of \$672,423 and equipment parts and materials of \$276,196, are priced at cost based on the average unit cost method. Inventory items are charged to road construction and maintenance, and to equipment repairs and operations, as used.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB No. 34. Beginning with the fiscal year ended September 30, 2003, the Ontonagon County Road Commission has capitalized each current year's infrastructure, as required by GASB No. 34, and beginning with the fiscal year ended September 30, 2004, has reported the infrastructure in the Statement of Net Assets. The Road Commission has not retroactively capitalized the major infrastructure assets as of September 30, 2004, as permitted by GASB No. 34. For the Ontonagon County Road Commission, the fourth anniversary of the mandated date of adoption of the other provisions of GASB No. 34 will be October 1, 2007.

Capital assets used in governmental fund type operations are accounted for in the governmental activities column of the government-wide financial statements.

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the operating fund as a charge to various expense accounts and a credit to a depreciation credit account. Accordingly, the annual depreciation expense does not affect the available operating fund equity.

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12-50 years

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Deferred revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual result could differ from those estimates.

Cost Allocation Plans

Ontonagon County has prepared and submitted to the Passenger Transportation Division, Michigan Department of Transportation, a central services cost allocation plan to document those general fund costs which should be allocated to the various Federal and State grant programs. This plan has been adhered to in the preparation of the financial statements. The amount of \$14,776 was paid to the General Fund by the Public Transit Fund for the 2004 fiscal year central services charges.

Other Financing Sources (Uses)

The transfers of cash between the various county funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case they are carried as assets and liabilities of the advancing or borrowing funds.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE B--LEGAL COMPLIANCE

Budgets and Budgetary Accounting

Budgets are adopted by the county board of commissioners for the General Fund and special revenue funds, except for the County Road Fund and County Economic Development Corporation Fund whose budgets are adopted and administered by the board of county road commissioners and the board of county economic development corporation, respectively. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budgets are adopted at the activity level and control is exercised at that level. The county board of commissioners has authorized the county's chief administrative officer (county clerk) to make general fund budget transfers between activities in September, when necessary, without increasing the overall budget and with the transfers to be subsequently presented to the board for their review and approval. Also, the board of road commissioners has authorized its chief administrative officer and fiscal officer to amend the County Road Fund budget, when necessary, without increasing the overall budget, by transferring funds between expenditure cost centers (activities). Budgeted revenues and expenditures, as presented in Exhibits K, L, M, and N, include the original budget and the final amended budget which contains authorized amendments to the original budgets as adopted.

In noncompliance with Public Act 2 of 1968, as amended, expenditures were incurred in excess of amounts appropriated in the amended budgets for the activities or functions of the special revenue funds as follows:

<u>Fund/Activity or Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Expenditures Over Budget</u>
General			
Debt Service	\$ 2,141	\$ 79,246	\$ 77,105
Special Revenue			
Law Library			
Judicial	13,000	14,595	1,595

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH AND INTEREST-BEARING DEPOSITS

Michigan Compiled Laws, Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The county's deposits and investments are in accordance with statutory authority.

The county has designated six banks for deposit of county funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and includes all of the above investments.

The risk disclosures for the county's deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	Carrying Amounts				
	Primary Government	Business-Type Activities	Fiduciary Funds	Total Primary Government	Component Units
<u>Cash and Deposits</u>					
Imprest Cash	\$ 1,125			\$ 1,125	\$ 110
Insured (FDIC)	306,741			306,741	413,427
Uninsured and Uncollateralized	864,248	\$ 73,537	\$ 360,686	1,298,471	750,672
Total	\$ 1,172,114	\$ 73,537	\$ 360,686	\$ 1,606,337	\$ 1,164,209
	Financial Institution Balance				
	Primary Government	Business-Type Activities	Fiduciary Funds	Total Primary Government	Component Units
<u>Deposits</u>					
Insured (FDIC)	\$ 308,165			\$ 308,165	\$ 413,427
Uninsured and Uncollateralized	945,032	\$ 73,537	\$ 360,686	1,379,255	703,367
Total	\$ 1,253,197	\$ 73,537	\$ 360,686	\$ 1,687,420	\$ 1,116,794

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE D--ACCOUNTS RECEIVABLE

Special Revenue Funds

The accounts receivable recorded in special revenue funds consist of the Public Transit Fund billings to other agencies for transit services provided to those agencies on a contractual basis in the amount of \$4,218, the 911 Service Funds receivable is from phone companies for their collections of the 4% operating surcharges through September of 2004 in the amount of \$8,530 and a reimbursement of \$201 to the Law Library Fund.

Component Unit

The accounts receivable recorded in the Road Commission consist of sundry receivables. The receivables were collected within 60 days after the fiscal year end.

NOTE E--ADVANCES TO OTHER FUNDS--GENERAL FUND

The county's present policy is to finance the working capital requirements of their 100% Tax Payment Funds (Enterprise) entirely with cash advances from the General Fund. At September 30, 2004, a total of \$338,000 was advanced of which approximately \$90,000 was available to be returned to the General Fund within 60 days of period end. Accordingly, the balance of \$193,000 is recorded as an amount reserved for long-term advances in the General Fund's fund balance.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

Capital Assets--Primary Government

	Account Balances 10/01/03	Additions	Deductions	Account Balances 09/30/04
Capital Assets Not Being Depreciated				
Land	\$ 50,300			\$ 50,300
Subtotal	50,300	\$ -	\$ -	50,300
Capital Assets Being Depreciated				
Land Improvements		116,380		116,380
Buildings and Fixtures	2,189,880			2,189,880
Office and Other Equipment	228,537	35,881	228,537	35,881
Office Furniture	211,314		211,314	-
Vehicles	572,500	48,417	66,231	554,686
Total	3,202,231	200,678	506,082	2,896,827
Less Accumulated Depreciation				
Land Improvements		1,327		1,327
Buildings and Fixtures	822,044	61,893		883,937
Office and Other Equipment	228,537	8,253	228,537	8,253
Office Furniture	211,314		211,314	-
Vehicles	331,423	79,938	66,231	345,130
Total	1,593,318	151,411	506,082	1,238,647
Net Capital Assets Being Depreciated	1,608,913	706,760	657,493	1,658,180
Total Capital Assets	<u>\$ 1,659,213</u>	<u>\$ 706,760</u>	<u>\$ 657,493</u>	<u>\$ 1,708,480</u>

The county policy is to capitalize assets with a useful life greater than one year and a value of \$5,000 or more.

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$ 34,568
Public Safety	39,691
Public Works	76,098
Health and Welfare	299
Recreation and Culture	755
Total Depreciation Expense	<u>\$ 151,411</u>

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Capital Assets--Road Commission (Component Unit)

	Account Balances 10/01/03	Additions	Deductions	Account Balances 09/30/04
Capital Assets Not Being Depreciated				
Infrastructure--Land	\$ 10,412			\$ 10,412
Infrastructure--Land Improvements	39,026			39,026
Subtotal	49,438	\$ -	\$ -	49,438
Capital Assets Being Depreciated				
Depletable Assets	1,408			1,408
Buildings	2,244,934			2,244,934
Road Equipment	6,057,444	143,953	222,946	5,978,451
Shop Equipment	135,941	4,940		140,881
Office Equipment	76,345	11,305	19,629	68,021
Engineer's Equipment	24,350		4,995	19,355
Infrastructure--Bridges		11,952		11,952
Infrastructure--Roads	856,305	332,258		1,188,563
Total	9,396,727	504,408	247,570	9,653,565
Less Accumulated Depreciation				
Building	1,052,695	80,405		1,133,100
Road Equipment	5,130,572	365,706	222,946	5,273,332
Shop Equipment	118,975	4,379		123,354
Office Equipment	69,202	3,149	19,628	52,723
Engineer's Equipment	22,443	921	4,995	18,369
Infrastructure--Roads		107,038		107,038
Total	6,393,887	561,598	247,569	6,707,916
Net Capital Assets Being Depreciated	3,002,840	504,408	561,599	2,945,649
Total Net Capital Assets	<u>\$ 3,052,278</u>	<u>\$504,408</u>	<u>\$561,599</u>	<u>\$2,995,087</u>

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 365,707
Indirect Equipment	
Shop Building	10,413
Storage Building	67,862
Shop Equipment	4,378
Net Administrative Expense	
Buildings	2,129
Office Equipment and Furniture	3,150
Engineers Equipment	921
Infrastructure	<u>107,038</u>
Total Deprecation Expense	<u><u>\$ 561,598</u></u>

NOTE G--LONG-TERM DEBT

The individual long-term debt and other long-term obligations of Ontonagon County, and the changes therein, may be summarized as follows:

Primary Government Long-Term Debt

	<u>Balances</u> <u>10/01/03</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>09/30/04</u>	<u>Due in One</u> <u>Year</u>
Governmental Activities				
<u>Primary Government</u>				
Loans Payable				
Michigan Strategic Fund Renaissance Park				
Fund loan for infrastructure improvements at				
the White Pine Industrial Park, \$191,700 at				
5% payable as detailed below.	\$ 160,598	\$ (79,245)	\$ 81,353	\$ 8,563
Accrued Employee Benefits (See Note I)	<u>119,766</u>	<u>6,230</u>	<u>125,996</u>	<u> </u>
Total Long-Term Debt-Primary Government	<u><u>\$ 280,364</u></u>	<u><u>\$ (73,015)</u></u>	<u><u>\$ 207,349</u></u>	<u><u>\$ 8,563</u></u>

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

The Michigan Strategic Fund (MSF) loan was made jointly to Ontonagon County and Carp Lake Township (recipients) in accordance with an Economic Development Financing Agreement. A letter from the Michigan Economic Development Corporation to the Ontonagon County Economic Development Corporation dated June 3, 2004 provides, in part, as follows: The information submitted is satisfactory, and we now consider this project complete and closed. Sufficient documentation regarding the job creation has been received so that the interest on the loan has been waived and the maximum credit (50%) has been awarded to the county/township. Even though this project is closed, the county and the township continue to be obligated for repayment of the loan portion of the agreement which amounts to \$95,850. After receiving payments totaling \$14,497, the current loan balance is \$81,353. Effective August 1, 2004, quarterly payments of \$2,141 were due on this loan. The loan is secured by a revenue sharing pledge agreement, the following is a schedule of the principal payments.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Fiscal Year</u>	<u>Principal</u>
2005	\$ 8,563	2010	\$ 8,564
2006	8,564	2011	8,563
2007	8,563	2012	8,564
2008	8,564	2013	8,563
2009	8,563	2014	4,281
Total			<u>\$81,352</u>

NOTE H--COMPENSATED ABSENCES

Accrued Vacation and Sick Leave Payable

The County and Road Commission (component unit) has an accrued liability to their employees for accumulated vacation and vested sick leave benefits as of September 30, 2004, as follows:

	<u>Vacation</u>	<u>Sick Leave</u>	<u>Total</u>
Primary Government			
County General Employees	\$ 48,130	\$ 20,194	\$ 68,324
Sheriff Department Employees	35,022	22,651	57,673
Total Primary Government	<u>\$ 83,152</u>	<u>\$ 42,845</u>	<u>\$125,997</u>
Component Unit--Road Commission			
Road Commission Employees	<u>\$ 73,930</u>	<u>\$ 511,024</u>	<u>\$584,954</u>
Total Component Unit	<u>\$ 73,930</u>	<u>\$ 511,024</u>	<u>\$584,954</u>
Total Accrued Employee Benefits Payable--Reporting Entity	<u>\$157,082</u>	<u>\$ 553,869</u>	<u>\$710,951</u>

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE H--COMPENSATED ABSENCES (Continued)

VACATION BENEFIT POLICIES

County General, Sheriff Department and Public Transit Employees

The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Vacation benefits earned are credited to each employee on a biweekly basis. The county has not established a formal policy regarding a maximum authorized accumulation of vacation hours.

Road Commission Employees

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. The annual vacation benefits earned by each employee are credited on the employee's employment anniversary date. Employees are required to use their vacation benefits within 1 year, except for those employees earning 3 or 4 weeks of vacation may be paid at their anniversary date for any unused portion of those weeks at their regular rate of pay, with the approval of the engineer or foreman.

SICK LEAVE BENEFIT POLICIES

County General, Sheriff Department and Public Transit Employees

The county's employment policies provide for sick leave benefits to be earned at the rate of 1 day per month, with a maximum accumulation of 100 days. The county's policy for county general and public transit employees provides that upon death, retirement, or voluntary termination employees shall be paid for 20% of all unused sick days to a maximum of 100 days. Sheriff department employees are paid for 50% of their accumulated sick leave benefits when they separate from employment, except when dismissed for cause, in which case, they are entitled to payment of 25% of their accumulated benefits.

Road Commission Employees

Road Commission employment policies provide for sick leave benefits to be earned at the rate of 1 day per month, with an unlimited accumulation. Upon permanent separation from employment, employees hired prior to July 1, 1994 shall be paid at their regular rate of pay for 100% of any accumulated unused sick leave. Those employees hired after July 1, 1994 shall be paid for a maximum of 80 days of accumulated unused sick leave.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE I--DEFERRED COMPENSATION

The County and Road Commission offers all its employees a choice of three deferred compensation plans created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (county and road commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the County or Road Commission's financial statements.

NOTE J--EMPLOYEES' RETIREMENT PLANS

Description of Plan and Plan Assets

Ontonagon County and the two component units, the Ontonagon County Economic Development Corporation (EDC) and the Ontonagon County Road Commission have separate agent multiple-employer defined benefit pension plans with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The plan's pension service requirements are computed using credited service at the time of termination of membership multiplied by the sum of 2% for county general and non-union employees, 2.5% for sheriff department employees, 2% for EDC employees and 2.25% for road commission employees times the final average compensation. The most recent period for which actuarial data was available was for the fiscal period ended December 31, 2003.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County and Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The calendar year 2003 required pension contributions were 11.31%, 12.62%, 11.55%, 15.47% and 19.59% of covered payroll for the county as follows: general group, sheriff, non-union, EDC and the Road Commission, respectively.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE J--EMPLOYEES' RETIREMENT PLANS (Continued)

Annual Pension Cost

For the calendar year ended December 31, 2003, the annual pension costs were \$157,094 for the County, \$4,531 for the EDC, and \$416,971 for the Road Commission which was equal to their required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three-Year Trend Information for GASB Statement No. 27

Year Ended December 31	Annual Pension Cost (APC)			Percentage of APC Contributed			Percentage of APC Contributed		
	County	EDC	Road	County	EDC	Road	County	EDC	Road
2001	\$ 135,865	\$ 4,576	\$ 454,539	100%	100%	100%	\$0	\$0	\$0
2002	129,707	4,478	398,067	100%	100%	100%	\$0	\$0	\$0
2003	157,094	4,531	416,971	100%	100%	100%	\$0	\$0	\$0

Required Supplementary Information for GASB Statement No. 27

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Unfunded) AAL (UAAL) (1)-(2)	Funded Ratio (1)/(2)	Covered Payroll	UAAL as a Percent of Covered Payroll
2001						
General	\$3,848,410	\$ 4,619,233	\$ (770,823)	83%	\$ 1,305,580	59%
EDC	41,674	55,125	(13,451)	76%	27,665	49%
Road	5,308,448	9,877,882	(4,574,434)	54%	2,024,994	226%
2002						
General	3,985,661	5,030,211	(1,044,550)	79%	1,378,927	76%
EDC	48,810	60,835	(12,025)	80%	28,250	43%
Road	5,738,460	10,354,113	(4,615,653)	55%	2,007,959	230%
2003						
General	4,305,536	5,459,056	(1,153,520)	79%	1,323,550	87%
EDC	58,482	69,261	(10,779)	84%	29,290	37%
Road	6,433,656	11,428,579	(4,994,923)	56%	1,903,230	262%

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE K--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note M, the Ontonagon County Road Commission provides post-employment health care benefits and life insurance benefits in accordance with the provisions of Article 14, Section 2(E), and Section 4 of the union agreement. The post-employment health care benefit provides that the Road Commission shall pay the full hospitalization insurance plan premium for the retirees and spouses for a five-year period from the date of retirement. The Road Commission will pay 25% of the premium on a Blue Cross/Blue Shield Supplemental Insurance Plan or alternate plan capping the alternate plan at 25% of the offered Blue Cross Plan for the retirees and their spouses. The post-employment life insurance benefit provides that the Road Commission will provide for term-life insurance coverage of \$1,500 for each Road Commission employee who retired prior to July 1, 1992, and \$5,000 for those retired after that date.

The Road Commission's policy is to finance these benefits on a pay-as-you-go basis. During the year ended September 30, 2004, 19 retirees were eligible for the post-retirement health care benefits at a cost of \$140,868. As described more fully in Note P, the Road Commission self-insures for life insurance benefits, which covered 10 retirees for \$1,500, 12 retirees for \$5,000 and 7 retirees for \$10,000 during the year ended September 30, 2004.

NOTE L--RISK MANAGEMENT

The County and Road Commission (component unit) are exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees.

County General

The county board of commissioners have purchased commercial insurance for property, liability, errors and omissions, medical benefit claims and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Road Commission (Component Unit)

The Road Commission has purchased commercial insurance for medical benefit claims, self-insure for employee group life coverage as detailed in Note P, and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial and pool insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE L--RISK MANAGEMENT (Continued)

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Ontonagon County Road Commission became a charter member on October 1, 2001.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE M--RESERVE FOR SELF-INSURANCE--ROAD COMMISSION

The Ontonagon County Board of Road Commissioners' policy is to self-insure for employee group life coverage. The self-insurance reserve account was established in 1992, and is funded by annual transfers of amounts equal to what the approximate premium would be for life insurance coverage, plus the annual interest earnings on the reserve account balance. The Road Commission's policy provides that the transfers of premium amounts will be discontinued when the annual interest earnings on the reserve account is greater than the estimated premium cost. All group life benefit payments are expensed when paid and closed to the reserve account at year end.

A summary of the changes in the reserve for self-insurance for the year ended September 30, 2004 is as follows:

Reserve Balance--October 1, 2003	\$ 121,998
Less: 2003/2004 Death Benefit Payment	<u>-</u>
Reserve Balance--September 30, 2004	<u><u>\$ 121,998</u></u>

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE N--TRANSFERS IN AND TRANSFERS (OUT)

The 2004 operating transfers from Exhibits D and F can be summarized as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers (Out)</u>
Primary Government		Primary Government	
General	\$ 134,908	Friend of the Court	\$ 3,015
		Public Transit	14,776
		100% Tax Payment	117,117
Law Library	<u>10,000</u>	General	<u>10,000</u>
Total Primary Government	<u>\$ 144,908</u>	Total Primary Government	<u>\$ 144,908</u>
Component Unit		Primary Government	
Economic Development Corporation	<u>\$ 18,400</u>	Economic Development Revolving Loan	<u>\$ 18,400</u>
Total Component Unit	<u>\$ 18,400</u>	Total Primary Government	<u>\$ 18,400</u>
Total Reporting Entity	<u>\$ 163,308</u>		<u>\$ 163,308</u>

NOTE O--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2004, the Federal aid received and expended by the Road Commission was \$0 for contracted projects and \$42,288 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are projects that are performed by the Road Commission and are subject to single audit requirements, if the amount expended is \$500,000 or more. A single audit of the Road Commission was not performed for the calendar year ended September 30, 2004.

COUNTY OF ONTONAGON

NOTES TO FINANCIAL STATEMENTS

NOTE P--CHANGE IN ACCOUNTING PRINCIPLE

Effective October 1, 2003, the county implemented several new accounting standards issued by GASB:

Statement No. 33, "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," as amended by Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus," which established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting model used by local governments, eliminating account groups and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the "Management Discussion and Analysis Section," which provides an overall analysis of the financial position and results of operations, and conditions that could have a significant effect on the financial position or results of operations.

Statement No. 38, "Certain Financial Statement Note Disclosures," which requires certain note disclosures when implementing GASB Statement No. 34.

ONTONAGON COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended September 30, 2004

EXHIBIT K

	BUDGETED AMOUNTS			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Taxes and Penalties	\$ 1,469,987	\$ 1,469,987	\$ 1,519,701	\$ 49,714
Licenses and Permits	2,950	2,950	4,050	1,100
Federal Grants	206,605	349,150	353,910	4,760
State Grants	477,303	482,266	438,089	(44,177)
Charges for Services	298,860	298,860	329,046	30,186
Fines and Forfeits	2,500	2,500	1,670	(830)
Interest and Rentals	13,500	13,500	10,645	(2,855)
Other Revenue	65,557	65,557	129,943	64,386
Total Revenues	2,537,262	2,684,770	2,787,054	102,284
Expenditures				
Current				
Legislative	29,571	30,321	30,000	321
Judicial	375,300	408,680	407,866	814
Other General Government	746,954	763,015	754,414	8,601
Public Safety	577,990	718,516	717,964	552
Public Works	15,062	26,015	25,975	40
Health and Welfare	161,993	150,608	149,862	746
Community and Economic Development	7,624	7,624	7,624	-
Recreation and Cultural	22,521	22,056	22,000	56
Other	699,140	744,860	742,474	2,386
Capital Outlay	28,713	103,319	103,232	87
Debt Service--Principal	20,000	2,141	79,246	(77,105)
Total Expenditures	2,684,868	2,977,155	3,040,657	(63,502)
Excess of Revenues Over (Under) Expenditures	(147,606)	(292,385)	(253,603)	38,782
Other Financing Sources (Uses)				
Interfund Transfers In--Primary Government	177,606	316,385	134,908	(181,477)
Interfund Transfers (Out)	(30,000)	(24,000)	(10,000)	14,000
Total Other Financing Sources (Uses)	147,606	292,385	124,908	(167,477)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	(128,695)	(128,695)
Fund Balance--October 1, 2003	433,377	433,377	433,377	-
Fund Balance--September 30, 2004	\$ 433,377	\$ 433,377	\$ 304,682	\$ (128,695)

ONTONAGON COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
PUBLIC TRANSIT MAJOR SPECIAL REVENUE FUND
For the Year Ended September 30, 2004

EXHIBIT L

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$ 88,350	\$ 88,424	\$ 92,334	\$ 3,910
Federal Grants	112,472	113,437	109,665	(3,772)
State Grants	206,288	206,215	195,595	(10,620)
Charges for Services	58,000	60,402	57,967	(2,435)
Interest and Rents	2,000	1,370	1,371	1
Other	2,100	3,125	9,265	6,140
Total Revenues	469,210	472,973	466,197	(6,776)
Expenditures				
Public Works	458,823	445,533	419,114	26,419
Capital Outlay	57,900	74,953	74,953	-
Total Expenditures	516,723	520,486	494,067	26,419
Excess of Revenues Over (Under) Expenditures	(47,513)	(47,513)	(27,870)	(19,643)
Other Financing Sources (Uses) Operating Transfers (Out)--Primary Government	(16,500)	(16,500)	(14,776)	(1,724)
Total Other Financing Sources (Uses)	(16,500)	(16,500)	(14,776)	(1,724)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(64,013)	(64,013)	(42,646)	(21,367)
Fund Balances--October 1, 2003	140,348	140,348	140,348	-
Fund Balances--September 30, 2004	\$ 76,335	\$ 76,335	\$ 97,702	\$ (21,367)

ONTONAGON COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
911 SERVICE MAJOR SPECIAL REVENUE FUND
For the Year Ended September 30, 2004

EXHIBIT M

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State Grants	\$ 68,800	\$ 68,800	\$ 75,530	\$ 6,730
Charges for Services	105,000	105,000	95,745	(9,255)
Total Revenues	173,800	173,800	171,275	(2,525)
Expenditures				
General Government	128,103	102,973		102,973
Public Safety			66,038	(66,038)
Capital Outlay	1,000	26,130	22,493	3,637
Total Expenditures	129,103	129,103	88,531	40,572
Excess of Revenues Over (Under) Expenditures	44,697	44,697	82,744	(38,047)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	44,697	44,697	82,744	(38,047)
Fund Balances--October 1, 2003	315,482	315,482	315,482	-
Fund Balances--September 30, 2004	<u>\$ 360,179</u>	<u>\$ 360,179</u>	<u>\$ 398,226</u>	<u>\$ (38,047)</u>

ONTONAGON COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT REVOLVING LOAN FUND
For the Year Ended September 30, 2004

EXHIBIT N

	<u>BUDGETED AMOUNTS</u>			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Interest and Rents	\$ 20,000	\$ 22,000	\$ 21,470	\$ 21,478
Other	77,000	109,000	111,478	2,478
Total Revenues	97,000	131,000	132,948	1,948
Expenditures				
Health and Welfare		298,000	298,000	-
Total Expenditures	-	298,000	298,000	-
Excess of Revenues Over (Under)				
Expenditures	97,000	(167,000)	(165,052)	1,948
Other Financing Sources (Uses)				
Operating Transfers (Out)--Component Unit	(18,400)	(18,400)	(18,400)	-
Total Other Financing Sources (Uses)	(18,400)	(18,400)	(18,400)	-
Excess of Revenues and Other				
Sources Over (Under)				
Expenditures and Other Uses	78,600	(185,400)	(183,452)	1,948
Fund Balances--October 1, 2003	642,156	642,156	642,156	-
Fund Balances--September 30, 2004	\$ 720,756	\$ 456,756	\$ 458,704	\$ 1,948

**ONTONAGON COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2004**

EXHIBIT O

SPECIAL REVENUE FUNDS--NON-MAJOR

ASSETS

	Friend of the Court	County Forestry	Register of Deeds Automation	Budget Stabilization	Community Action Agency	Senior Citizens	Law Library	County Library Board
Cash	\$7,709	\$21,378	\$4,727	\$186,630	\$16,141	\$55,429	\$1,372	
Receivables								
Accounts (Net of Estimated Uncollectibles)							201	
Due From State of Michigan								
Total Assets	<u>\$7,709</u>	<u>\$21,378</u>	<u>\$4,727</u>	<u>\$186,630</u>	<u>\$16,141</u>	<u>\$55,429</u>	<u>\$1,573</u>	<u>\$-</u>

LIABILITIES AND FUND BALANCES

Liabilities								
Accounts Payable			\$230				\$1,144	
Stumpage Deposits Payable		\$700						
Accrued Liabilities								
Deferred Revenue--Other								
Total Liabilities	<u>\$-</u>	<u>700</u>	<u>230</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>1,144</u>	<u>\$-</u>
Fund Balances								
Unreserved and Undesignated	<u>7,709</u>	<u>20,678</u>	<u>4,497</u>	<u>186,630</u>	<u>16,141</u>	<u>55,429</u>	<u>429</u>	
Total Fund Balances	<u>7,709</u>	<u>20,678</u>	<u>4,497</u>	<u>186,630</u>	<u>16,141</u>	<u>55,429</u>	<u>429</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$7,709</u>	<u>\$21,378</u>	<u>\$4,727</u>	<u>\$186,630</u>	<u>\$16,141</u>	<u>\$55,429</u>	<u>\$1,573</u>	<u>\$-</u>

**ONTONAGON COUNTY
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
September 30, 2004**

**EXHIBIT O
(CONTINUED)**

SPECIAL REVENUE FUNDS--NON-MAJOR

ASSETS

	Housing Rehabilitation Grants 2001-2002	2003-2004	Drug Law Enforcement	Social Welfare	Probate Child Care	Veterans' Trust	Total
Cash		\$36,519	\$233	\$2,404	\$3,087	\$(499)	\$335,130
Receivables							
Accounts (Net of Estimated Uncollectibles)							201
Due From State of Michigan					7,191	784	7,975
Total Assets	\$ -	\$36,519	\$233	\$2,404	\$10,278	\$285	\$343,306

LIABILITIES AND FUND BALANCES

Liabilities							
Accounts Payable				\$35	\$632	\$285	\$2,326
Stumpage Deposits Payable							700
Accrued Liabilities				90	813		903
Deferred Revenue--Other		\$36,519					36,519
Total Liabilities	\$ -	36,519	\$ -	125	1,445	285	40,448
Fund Balances							
Unreserved and Undesignated	-	-	233	2,279	8,833	-	302,858
Total Fund Balances	-	-	233	2,279	8,833	-	302,858
Total Liabilities and Fund Balances	\$ -	\$36,519	\$233	\$2,404	\$10,278	\$285	\$343,306

ONTONAGON COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2004

EXHIBIT P

SPECIAL REVENUE FUNDS--NON-MAJOR FUNDS								
	Friend of the Court	County Forestry	Register of Deeds Automation	Budget Stabilization	Community Action Agency	Senior Citizens	Law Library	County Library Board
Revenues								
Taxes					\$ 55,878	\$ 94,586		
Federal Grants								
State Grants						943		
Charges for Services	\$ 445		\$ 14,480					
Fines and Forfeits							\$ 2,000	\$ 22,889
Interest and Rents			128					181
Other							2,471	
Total Revenues	445	\$ -	14,608	\$ -	55,878	95,529	4,471	23,070
Expenditures								
Current								
Judicial							14,595	
General Government			17,459					
Health and Welfare					58,511	96,864		
Recreation and Cultural								23,070
Other		70						
Total Expenditures	-	70	17,459	-	58,511	96,864	14,595	23,070
Excess of Revenues Over (Under) Expenditures	445	(70)	(2,851)		(2,633)	(1,335)	(10,124)	-
Other Financing Sources (Uses)								
Operating Transfers In--Primary Government							10,000	
Operating Transfers (Out)--Primary Government	(3,015)							
Total Other Financing Sources (Uses)	(3,015)	-	-	-	-	-	10,000	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(2,570)	(70)	(2,851)		(2,633)	(1,335)	(124)	
Fund Balances--October 1, 2003	10,279	20,748	7,348	186,630	18,774	56,764	553	-
Fund Balances--September 30, 2004	\$ 7,709	\$ 20,678	\$ 4,497	\$ 186,630	\$ 16,141	\$ 55,429	\$ 429	\$ -

ONTONAGON COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2004

EXHIBIT P
(CONTINUED)

	SPECIAL REVENUE FUNDS--NON-MAJOR FUNDS						
	Housing Rehabilitation Grants 2001-02	2003-04	Drug Law Enforcement	Social Welfare	Probate Child Care	Veterans' Trust	Total
Revenues							
Taxes							\$ 150,464
Federal Grants	\$ 6,848	\$ 58,405					65,253
State Grants					\$ 20,209	\$ 640	21,792
Charges for Services	50	600					15,575
Fines and Forfeits							24,889
Interest and Rents							309
Other	9,316	21,240		\$ 27,749	18,505		79,281
Total Revenues	16,214	80,245	\$ -	27,749	38,714	640	357,563
Expenditures							
Current							
Judicial							14,595
General Government							17,459
Health and Welfare	16,214	80,245		29,653	48,312	1,153	330,952
Recreation and Cultural							23,070
Other							70
Total Expenditures	16,214	80,245	-	29,653	48,312	1,153	386,146
Excess of Revenues Over (Under) Expenditures	-	-	-	(1,904)	(9,598)	(513)	(28,583)
Other Financing Sources (Uses)							
Operating Transfers In--Primary Government							10,000
Operating Transfers (Out)--Primary Government							(3,015)
Total Other Financing Sources (Uses)	-	-	-	-	-	-	6,985
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	-	(1,904)	(9,598)	(513)	(21,598)
Fund Balances--October 1, 2003	-	-	233	4,183	18,431	513	324,456
Fund Balances--September 30, 2004	\$ -	\$ -	\$ 233	\$ 2,279	\$ 8,833	\$ -	\$ 302,858

ONTONAGON COUNTY
COMBINING SCHEDULE OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
September 30, 2004

EXHIBIT Q

BUSINESS-TYPE ACTIVITIES--NON-MAJOR ENTERPRISE FUNDS						
100% TAX PAYMENT FUNDS						Total Non-Major Enterprise Funds
1997	1998	1999	2000	2001	2002	
<u>ASSETS</u>						
Current Assets						
Cash and Cash Equivalents				\$ (66)	\$ 11,746	\$ 11,680
Delinquent Taxes Receivable				2,023	64,646	66,669
Forfeiture Certificate Fee Receivable				63	1,100	1,163
Total Current Assets	\$ -	\$ -	\$ -	\$ -	2,020	77,492
Total Assets	\$ -	\$ -	\$ -	\$ -	\$ 2,020	\$ 77,492
<u>LIABILITIES</u>						
Current Liabilities						
Redemption Certificate Fees Receivable				\$ 70		\$ 70
Total Current Liabilities	\$ -	\$ -	\$ -	\$ -	70	\$ -
Noncurrent Liabilities						
Advance From General Fund					8,000	8,000
Total Noncurrent Liabilities	-	-	-	-	-	8,000
Total Liabilities	-	-	-	-	70	8,000
<u>NET ASSETS</u>						
Unrestricted Net Assets	-	-	-	-	1,950	69,492
Total Net Assets	\$ -	\$ -	\$ -	\$ -	\$ 1,950	\$ 69,492

ONTONAGON COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--NON-MAJOR ENTERPRISE FUNDS
For the Year Ended September 30, 2004

EXHIBIT R

	BUSINESS-TYPE ACTIVITIES--NON-MAJOR ENTERPRISE FUNDS						
	100% TAX PAYMENT FUNDS						Total Non-Major Enterprise Funds
	1997	1998	1999	2000	2001	2002	
Operating Revenues							
Interest and Penalties on Taxes	\$ 582	\$ 1,034	\$ 79	\$ 3,753	\$ 27,329	\$ 41,308	\$ 74,085
Total Operating Revenues	582	1,034	79	3,753	27,329	41,308	74,085
Net Operating Income (Loss)							
Before Operating Transfers	582	1,034	- 79	3,753	27,329	41,308	74,085
Interfund Transfers							
Transfers (Out) to General Fund	(2,128)	(3,359)	(443)	(9,187)	(102,000)		(117,117)
Change in Net Assets	(1,546)	(2,325)	- (364)	(5,434)	(74,671)	41,308	(43,032)
Net Assets--October 1, 2003	1,546	2,325	364	5,434	76,621	28,184	114,474
Net Assets--September 30, 2004	\$ -	\$ -	\$ -	\$ -	\$ 1,950	\$ 69,492	\$ 71,442

ONTONAGON COUNTY
COMBINING SCHEDULE OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
For the Year Ended September 30, 2004

EXHIBIT S

	BUSINESS-TYPE ACTIVITIES--NON-MAJOR ENTERPRISE FUNDS						
	100% TAX PAYMENT FUNDS						Total Enterprise Funds
	1997	1998	1999	2000	2001	2002	
Cash Flows From Operating Activities							
Interest and Penalties on Taxes	\$ 582	\$ 1,034	\$ 79	\$ 3,753	\$ 27,329	\$ 41,308	\$ 74,085
Delinquent Taxes Collected	750	1,570	152	5,039	68,420	208,709	284,640
(Increase) or Decrease in Other Receivables			261	316	900	(1,100)	377
Increase or (Decrease) in Other Payables			(207)		(60)		(267)
Net Cash Provided by Operating Activities	1,332	2,604	285	9,108	96,589	248,917	358,835
Cash Flows From Noncapital Financing Activities							
Return of Advances From Other Funds						(242,000)	(242,000)
Transfers In (Out)	(2,128)	(3,359)	(443)	(9,187)	(102,000)		(117,117)
Net Cash Provided by Noncapital Financing Activities	(2,128)	(3,359)	(443)	(9,187)	(102,000)	(242,000)	(359,117)
Net Increase (Decrease) in Cash and Cash Equivalents	(796)	(755)	(158)	(79)	(5,411)	6,917	(282)
Cash and Cash Equivalents at Beginning of Year	796	755	158	79	5,345	4,829	11,962
Cash and Cash Equivalents at End of Year	\$ -	\$ -	\$ -	\$ -	\$ (66)	\$ 11,746	\$ 11,680
Reconciliation of Operating Income to Net Cash Provided by Operating Activities							
Operating Income (Loss)	\$ 582	\$ 1,034	\$ 79	\$ 3,753	\$ 27,329	\$ 41,308	\$ 74,085
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities							
(Increase) Decrease in Taxes Receivable	750	1,570	152	5,039	68,420	208,709	284,640
(Increase) Decrease in Forfeiture Certificate Fee Receivable			261	316	900	(1,100)	377
Increase (Decrease) in Redemption Certificate Fee Payable			(207)		(60)		(267)
Net Cash Provided by Operating Activities	\$ 1,332	\$ 2,604	\$ 285	\$ 9,108	\$ 96,589	\$ 248,917	\$ 358,835

ONTONAGON COUNTY
COMBINING SCHEDULE OF FIDUCIARY NET ASSETS
AGENCY FUNDS
September 30, 2004

EXHIBIT T

	<u>AGENCY FUNDS</u>		
	General Agency	Library (Penal Fines) Fund	Total
<u>ASSETS</u>			
Cash	\$ 349,900	\$ 10,786	\$ 360,686
Total Assets	<u>\$ 349,900</u>	<u>\$ 10,786</u>	<u>\$ 360,686</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Due to Schools	\$ 649		\$ 649
Due to Townships	8,081		8,081
Due to Villages	342		342
Due to State of Michigan	448,823		448,823
Undistributed Interest	-	\$ 64	64
Undistributed Penal Fines		10,722	10,722
Undistributed Tax Collections	(115,188)		(115,188)
Other Trust Payable	7,193		7,193
Total Liabilities	<u>349,900</u>	<u>10,786</u>	<u>360,686</u>
Total Liabilities and Fund Balances	<u>\$ 349,900</u>	<u>\$ 10,786</u>	<u>\$ 360,686</u>

ONTONAGON COUNTY
COMBINING SCHEDULE OF CHANGES IN ASSETS
AND LIABILITIES--AGENCY FUNDS
For the Year Ended September 30, 2004

EXHIBIT U

	Balance 10/01/03	Additions	Deductions	Balance 09/30/04
<u>GENERAL AGENCY FUND</u>				
Assets				
Cash	\$ 361,728	\$ 5,214,499	\$ 5,226,327	\$ 349,900
Due From Employees	(221)	221	-	-
Total Assets	<u>\$ 361,507</u>	<u>\$ 5,214,720</u>	<u>\$ 5,226,327</u>	<u>\$ 349,900</u>
Liabilities				
Due to Other Funds		\$ 2,089,384	\$ 2,089,384	
Due to Schools	\$ (4,431)	642,082	637,002	\$ 649
Due to Townships	1,741	148,817	142,477	8,081
Due to Villages	1,854	138,050	139,562	342
Due to State	351,478	2,228,370	2,131,025	448,823
Due to Federal		369,161	369,161	-
Undistributed Tax Collections	397	3,190,808	3,306,393	(115,188)
Other Trust Payable	10,468	384,045	387,320	7,193
Total Liabilities	<u>\$ 361,507</u>	<u>\$ 9,190,717</u>	<u>\$ 9,202,324</u>	<u>\$ 349,900</u>
<u>LIBRARY PENAL FINE FUND</u>				
Assets				
Cash	<u>\$ 18,275</u>	<u>\$ 49,249</u>	<u>\$ 56,738</u>	<u>\$ 10,786</u>
Liabilities				
Undistributed Interest	\$ 91	\$ 403	\$ 430	\$ 64
Undistributed Penal Fines	18,184	48,846	56,308	10,722
Total Liabilities	<u>\$ 18,275</u>	<u>\$ 49,249</u>	<u>\$ 56,738</u>	<u>\$ 10,786</u>

ONTONAGON COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended September 30, 2004

EXHIBIT V

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Taxes and Penalties				
Current Real Property Taxes	\$1,000,000	\$ 1,000,000	\$ 964,235	\$ (35,765)
Industrial Facilities Tax	7,827	7,827	7,827	-
Delinquent Real Property Taxes	115,000	115,000	153,314	38,314
Delinquent Personal Property Taxes	500	500	2,423	1,923
Commercial Forest Yield Tax	1,000	1,000	11,044	10,044
Commercial Forest Reserve Tax	60,000	60,000	60,629	629
Tax Exempt Housing	1,395	1,395	1,368	(27)
Trailer Tax	30	30	29	(1)
Swamp Lands Tax	33,735	33,735	33,896	161
Payment-In-Lieu of Taxes	250,000	250,000	275,780	25,780
Interest and Penalties on Taxes	500	500	9,156	8,656
Total Taxes and Penalties	1,469,987	1,469,987	1,519,701	49,714
Licenses and Permits				
Marriage Licenses	300	300	320	20
Dog Licenses	1,000	1,000	1,263	263
Pistol Permits	1,200	1,200	2,002	802
Handgun Purchase Permits	300	300	325	25
Kennel Licenses	150	150	140	(10)
Total Licenses and Permits	2,950	2,950	4,050	1,100
Federal Grants				
Emergency Services	10,000	10,000	6,244	(3,756)
Homeland Security Grant	-	53,219	107,153	53,934
Delinquency Liaison Officer Program	47,605	47,605	17,384	(30,221)
Airport Improvement Grant	-	89,326	89,326	-
ADC Incentive	12,000	12,000	12,154	154
Medical Support Enforcement	12,000	12,000	10,384	(1,616)
Cooperative Reimbursement	125,000	125,000	111,265	(13,735)
Total Federal Grants	206,605	349,150	353,910	4,760
State Grants				
Probate Judge Salary	20,000	20,000	20,000	-
Juvenile Officer Grant	27,500	27,500	27,317	(183)
Judicial Salary Standardization	18,750	18,750	18,553	(197)
Court Caseload Assistance	3,000	3,000	2,604	(396)
Court Funding--Jury Fee	45,000	45,000	44,324	(676)
Crime Victims' Assistance	4,000	4,000	4,840	840
Secondary Road Patrol	45,000	45,000	49,367	4,367
Marine Safety	4,087	4,087	2,057	(2,030)
Snowmobile Safety Program	21,821	21,821	5,576	(16,245)
Off-Road Vehicle Safety Program	8,063	8,063	1,575	(6,488)
Airport Improvement Grant	-	4,963	4,963	-
Cooperative Reimbursement Program	11,200	11,200	7,627	(3,573)
Prosecutor--CEAP Program	500	500	2,848	2,348
Act 302 Training	2,200	2,200	2,103	(97)
Convention Facility Liquor Tax	30,000	30,000	29,528	(472)
State Cigarette Tax	7,000	7,000	4,702	(2,298)
State Revenue Sharing	130,000	130,000	121,721	(8,279)
State Single Business Tax	14,182	14,182	12,000	(2,182)
Remuneration Grant	85,000	85,000	61,183	(23,817)
Court System Computerization			15,201	15,201
Total State Grants	477,303	482,266	438,089	(44,177)

ONTONAGON COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended September 30, 2004

EXHIBIT V
(CONTINUED)

	BUDGETED AMOUNTS			Variance With Final Budget
	Original	Final	Actual	Positive (Negative)
Charges for Services				
Circuit Court Costs	2,850	2,850	3,315	465
Circuit Court Probation Fees	1,500	1,500	733	(767)
District Court Costs	104,700	104,700	98,535	(6,165)
District Court Oversight Fees	8,255	8,255	10,877	2,622
Probate Court Costs	250	250	692	442
Board and Care of Dogs and Cats	100	100	-	(100)
Circuit Court Costs	1,200	1,200	2,350	1,150
Friend of the Court Services	5,000	5,000	4,968	(32)
Probate Court Services	9,000	9,000	4,984	(4,016)
Treasurer Services	1,300	1,300	1,899	599
Clerk Services	9,000	9,000	10,348	1,348
Register of Deed's Services	33,080	33,080	36,352	3,272
Real Estate Transfer Tax	20,000	20,000	27,053	7,053
District Court Civil Fees	2,000	2,000	3,077	1,077
Sheriff Services	16,500	16,500	27,219	10,719
Soil Erosion Fees	3,500	3,500	2,755	(745)
Marriage Counseling Fees	700	700	750	50
Record Copying	3,500	3,500	4,307	807
Prisoner Board	15,000	15,000	12,612	(2,388)
Tax Department Services	28,400	28,400	33,179	4,779
Medical Examiner Fees	1,400	1,400	-	(1,400)
Airport Use Fees	2,950	2,950	6,108	3,158
Sales of Supplies and Maps	175	175	168	(7)
Sale of Scrap and Salvage	500	500	106	(394)
Sale of Aviation Fuel	3,000	3,000	3,932	932
Park Fees	25,000	25,000	32,727	7,727
Total Charges for Services	298,860	298,860	329,046	30,186
Fines and Forfeits				
Bond and Other Forfeitures	2,500	2,500	1,610	(890)
Garnishment Fees	-	-	60	60
Total Fines and Forfeits	2,500	2,500	1,670	(830)
Interest and Rents				
Interest Earned on Deposits	12,000	12,000	9,163	(2,837)
Rental Income	1,500	1,500	1,482	(18)
Total Interest and Rents	13,500	13,500	10,645	(2,855)
Other Revenues				
Contributions--Public Sources	59,557	59,557	124,466	64,909
Contributions--Private Sources	400	400	400	-
Transporting Patients	3,000	3,000	593	(2,407)
General Reimbursements and Refunds	100	100	1,848	1,748
Vending and Pay Phone Commissions	2,500	2,500	2,636	136
Total Other Revenues	65,557	65,557	129,943	64,386
Total Revenue	2,537,262	2,684,770	2,787,054	102,284
Other Financing Sources				
Operating Transfers In				
Friend of the Court	3,015	3,015	3,015	-
Public Transit	16,500	16,500	14,776	(1,724)
Budget Stabilization	48,091	186,870	-	(186,870)
100% Tax Payment Funds	110,000	110,000	117,117	7,117
Total Other Financing Sources	177,606	316,385	134,908	(181,477)
Total Revenues and Other Financing Sources	\$2,714,868	\$ 3,001,155	\$ 2,921,962	\$ (79,193)

ONTONAGON COUNTY
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended September 30, 2004

EXHIBIT W

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Legislative				
Board of Commissioners	\$ 29,571	\$ 30,321	\$ 30,000	\$ 321
Total Legislative	29,571	30,321	30,000	321
Judicial				
Circuit Court	27,000	41,007	40,488	519
District Court	106,685	115,669	115,545	124
Friend of the Court	108,834	111,034	110,973	61
Jury Board	1,800	3,703	3,703	-
Probate Court	128,481	136,919	136,809	110
Family Counseling	2,500	348	348	-
Total Judicial	375,300	408,680	407,866	814
Other General Government				-
Elections	11,737	9,293	9,252	41
Clerk/Register of Deeds	92,138	90,111	90,071	40
Accounting Department	43,989	44,939	44,875	64
Equalization Department	107,539	107,278	107,217	61
Prosecuting Attorney	123,265	120,165	119,987	178
Tax Processing	11,500	10,359	10,348	11
Remonumentation Program	85,000	68,213	61,183	7,030
Limited Tax Advisory	170	38	32	6
Treasurer	103,059	103,262	103,239	23
Cooperative Extension Service	55,498	53,239	53,226	13
Courthouse and Grounds	66,179	72,682	72,677	5
Soil Survey	600	477	477	-
Soil Conservation	2,375	2,400	2,400	-
Soil Erosion Control	3,480	1,490	1,335	155
Resource Conservation and Development	325	300	300	-
Record Copying	8,000	3,956	3,902	54
Central Supply	2,500	1,290	1,217	73
Computer Network	-	41,936	41,887	49
County Audit	17,000	18,987	18,869	118
Consultant Fees	12,600	12,600	11,920	680
Total Other General Government	746,954	763,015	754,414	8,601
Total General Government	1,151,825	1,202,016	1,192,280	9,736
Public Safety				
Sheriff	262,737	304,290	304,199	91
Delinquency Liaison Officer Program	24,065	28,762	28,598	164
Secondary Road Patrol	37,313	37,364	37,317	47
Snowmobile Law Enforcement	23,595	3,002	2,995	7
Marine Law Enforcement	4,850	1,067	1,065	2
Off-Road Vehicle Enforcement	6,525	11,936	11,870	66
Jail	193,590	202,656	202,635	21
Mine Inspector	3,762	3,891	3,891	-
Planning Commission	4,900	2,043	1,901	142
Emergency Services	16,653	123,505	123,493	12
Total Public Safety	577,990	718,516	717,964	552

ONTONAGON COUNTY
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended September 30, 2004

EXHIBIT W
(CONTINUED)

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Public Works				
Airport	15,062	26,015	25,975	40
Total Public Works	15,062	26,015	25,975	40
Health and Welfare				
District Health Department	62,150	54,062	54,061	1
Substance Abuse Agency	15,000	14,764	14,764	-
Medical Examiner	18,465	14,939	14,903	36
District Mental Health Department	48,814	48,814	48,814	-
Emergency Ambulance	1,400	1,225	1,214	11
Care of Patients	3,450	1,480	1,421	59
Gogebic Human Services Coordinating Board	2,500	2,500	2,500	-
Veterans' Burials	8,500	11,300	10,800	500
Veterans' Counselor	1,254	1,254	1,115	139
Veterans' Affairs Board	460	270	270	-
Total Health and Welfare	161,993	150,608	149,862	746
Community and Economic Development				
Western UP Planning and Development Region	600 7,024	600 7,024	600 7,024	- -
Total Community and Economic Development	7,624	7,624	7,624	-
Recreation and Cultural				
County Park	22,521	22,056	22,000	56
Other				
Employee Fringe Benefits	640,740	674,549	673,752	797
Insurance and Bonds	58,400	70,311	68,722	1,589
Total Other	699,140	744,860	742,474	2,386
Capital Outlay				
New Equipment	28,713	103,319	103,232	87
Total Capital Outlay	28,713	103,319	103,232	87
Debt Service				
White Pine Industrial Park Loan Principal	20,000	2,141	79,246	(77,105)
Total Expenditures	2,684,868	2,977,155	3,040,657	(63,502)
Other Financing Uses				
Interfund Transfers (Out)				
Law Library	5,000	10,000	10,000	-
Child Care	25,000	14,000	-	14,000
Total Other Financing Uses	30,000	24,000	10,000	14,000
Total Expenditures and Other Financing Uses	\$ 2,714,868	\$ 3,001,155	\$ 3,050,657	\$ (49,502)



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

December 14, 2004

Ontonagon County Board of Commissioners
Ontonagon County Courthouse
725 Greenland Road
Ontonagon, Michigan 49953

RE: Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the County of Ontonagon as of and for the year ended September 30, 2004, and have issued our report thereon dated December 14, 2004.

The County of Ontonagon adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues;" GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," as amended by GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis," and GASB Statement No. 38, "Certain Financial Statement Note Disclosures;" and Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures," as of October 1, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether Ontonagon County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of noncompliance, which we have reported to the management of Ontonagon County in the accompanying Comments and Recommendations section of this report as findings 04-03 and 04-04.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Ontonagon County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. There were two matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition, which we have reported to the management of Ontonagon County in the accompanying Comments and Recommendations section of this report as findings 04-01 and 04-02.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Ontonagon County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being auditing may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the board members, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

COUNTY OF ONTONAGON

COMMENTS AND RECOMMENDATIONS

OTHER REPORTABLE CONDITIONS

Although our study and evaluation of internal controls disclosed no condition that we believe to be a material weakness, our audit disclosed a reportable condition which we wish to point out for consideration by the management of Ontonagon County.

INTERNAL CONTROL WEAKNESSES

Sheriff Department--Dime Store Receipts

Finding 04-01

Condition: The Sheriff's Department uses generic receipts to account for money collected from trustees.

Criteria: The Uniform Accounting Procedures Manual states: "Numerically controlled (printer prenumbered) three part official receipts with the name of the local unit printed on the receipt must be issued for all revenues. Receipt books issued to other departments must be accounted for numerically. The use of "Dime Store" receipts is strictly prohibited."

Recommendation: We recommend that the Sheriff's Department use official receipts for all collections with the account classification included thereon.

Sheriff Department--Bank Account Reconciliation

Finding 04-02

Condition: The Sheriff's Department does not reconcile its bank account.

Criteria: The Uniform Accounting Procedures Manual states "All bank accounts must be reconciled to the local unit accounting records monthly."

Recommendation: We recommend that the Sheriff's Department reconcile its bank account on a monthly basis. The balance must agree with the accounting records of the local unit.

STATUTORY NONCOMPLIANCE

County Board--Budget

Finding 04-03

Condition: As indicated in the notes to the financial statements, the County of Ontonagon has not complied with certain provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act. For the fiscal year ended September 30, 2004, expenditures were incurred in excess of amounts appropriated in the amended budgets for the activities or functions of the general and special revenue funds as follows:

COUNTY OF ONTONAGON

COMMENTS AND RECOMMENDATIONS

STATUTORY NONCOMPLIANCE (Continued)

<u>Fund/Activity or Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Expenditures Over Budget</u>
General			
Debt Service	\$ 2,141	\$ 79,246	\$ 77,105
Special Revenue			
Law Library			
Judicial	13,000	14,595	1,595

Criteria: The expenditure of funds in excess of appropriations is contrary to the provisions of Public Act 2 of 1968, as amended. The act requires the board of commissioners to make budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Directive: We direct that the county's chief administrative officer, and those boards and commissions and administrative personnel responsible for administering the activities of the various funds of the county, develop budgetary control procedures for the general fund and special revenue funds which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

County--Electronic Transactions of Public Funds

Finding 04-04

Condition: Ontonagon County electronically transfers funds for payroll withholdings and other payments without legal authority.

Criteria: According to MCL 124.303:

"A local unit shall not be a party to an ACH (Automated Clearing House) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the ETO of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.

COUNTY OF ONTONAGON

COMMENTS AND RECOMMENDATIONS

STATUTORY NONCOMPLIANCE (Continued)

- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary.”

Directive: We direct the county board to adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.